Credit UW Union

March 9, 2010

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Ms. Rupp:

Re: Part 704 – Corporate Credit Unions

UW Credit Union is a Wisconsin state chartered and federally insured institution. We are members of Western Corporate Federal Credit Union and Members United Corporate Federal Credit Union.

Thank you for the opportunity to comment on the proposed National Credit Union Administration Rule Part 704 - Corporate Credit Unions. We believe it is essential to the long-term success of the credit union movement that fundamental and inherent weaknesses in the structure and risks of the corporate credit union system, revealed as a result of economic downturn, market dislocations and real estate price corrections, be addressed in a manner that assures all participants in the credit union system that never again can significant risk be aggregated in a manner which would put the resources of the National Credit Union Share Insurance Fund (NCUSIF) in first loss position over the capital of those natural person credit unions who choose to participate in the payment settlement services, investing, borrowing and governance of corporate credit unions. This fundamental principle must be the overriding design consideration in the regulatory structure of corporate credit unions. Simply put, if members of natural person credit unions cannot primarily manage the risks associated with their credit union charter, then over time, there will likely be fewer of them.

With these principles in mind, we reviewed the proposed Rule Part 704 and generally support the framework that is established. We understand that as a result of this rule, there will need to be significant change to the business model for most corporate credit unions and that consolidation or collaboration will be required to sustain value for most natural person credit union participants. We are confident that when Rule 704 is finalized, and when it is understood how NCUA will deal with the troubled legacy assets of corporate credit unions, that corporate credit union leaders will respond to the market wishes of their natural person credit unions, and a better corporate credit union system will emerge. To be sure, credit unions need the payment services provided by the corporate credit union system. It doesn't seem clear that term investing and term borrowing are best provided through the balance sheets of corporate credit unions. For those who believe it is best to preserve much of the current corporate credit union model, which tends to concentrate the assets of natural person credit unions on the balance sheet of a corporate credit union, the proposed rule provides the continued framework for that model with new appropriate requirements and limitations. These include new Tier I net-worth requirements and risk-based capital requirements as well as new asset liability standards. We know that some corporate credit union leaders and some of their natural person credit union members will urge the NCUA Board to soften provisions of the proposed rule to permit greater latitude in interest rate risk, credit risk and lower long-term retained earnings requirements. Before considering suggestions for deviations from the proposed rules, we urge the NCUA Board to evaluate whether those revisions would tend to put the resources of the NCUSIF in a first risk position over the capital resources of natural person credit unions that choose to participate in the corporate system and reject those that would.

Specifically, we urge the NCUA Board in these areas:

Section 704.6 (c) Issuer Concentration limits (1)

Rule: The aggregate of all investments in any single obligor is limited to 25 percent of capital or $5 million, whichever is greater.

Our Comment: We believe the NCUA Board is justified in mandating corporate credit unions' control credit risk exposure. Judging from past performance, this aspect of operations was neglected. While we do have an appreciation for the concerns of liquidity and pricing, we believe the exposure to losses by the NCUSIF significantly outweigh arguments against this rule which include marginally better pricing or more efficient transaction sizes.

Our Recommendation: Implement this rule as written, allowing exceptions only for the investments backed by the full faith and credit or the U.S. Government.

Section 704.8(c) Penalty of Early Withdrawals

A corporate credit union that permits early share certificate withdrawals must redeem at the lesser of book value plus accrued dividends or the value based on a market-based penalty sufficient to cover the estimated replacement cost of the certificate redeemed.

Our Comment: The practice of a corporate credit union overpaying for the early redemption of liabilities is detrimental to the earnings and capitalization of corporate credit unions, and inherently presents additional risk to the NCUSIF. We understand that an early redemption option would be an attractive selling feature of corporate credit union term certificates, but we don't agree it is desirable to promote larger corporate credit union balance sheets rather than retaining marketable securities on the balance of natural person credit unions. There are inherent risks in investment activities, and to the extent possible, those risks should remain on the balance sheets of natural person credit unions. In exchange for receiving a guaranteed yield for a defined period of time, comes the risk that the return might turn out to be below that of other alternatives. The earnings and capital base of corporate credit unions should not be reduced to protect members from the normal risks associated with term investments.

Our Recommendation: Implement the rule as written.

Section 704.8(h) Weighted Average Asset Life

The weighted average life (WAL) of a corporate credit union's investment portfolio, excluding derivative contracts and equity investments, may not exceed two years.

Our Comment: We believe a two-year WAL limitation on a corporate credit union's investment portfolio presents a reasonable balance of operating flexibility for corporate credit unions while limiting risk to the NCUSIF. In particular, it is an important protection from repeating the conditions in which a corporate credit union rapidly expanded their balance sheet by offering attractive near term certificates while lengthening the duration of their investment portfolios. We recognize this WAL restriction will likely reduce term lending activity by corporate credit unions, but we don't believe that term lending is necessarily compatible with the typical funding structure of corporate credit unions, nor has term borrowing from corporate credit unions been widely utilized by natural person credit unions.

Our Recommendation: We support the two-year WAL requirement. While a restriction on WAL is a step in the right direction toward mitigating risk in corporate credit unions, we believe additional requirements to more closely align asset and liability re-pricing would also be advisable.

Section 704.9(b) Borrowing Limits

A corporate credit union may borrow up to the lower of 10 times capital or 50% of capital and shares (excluding shares created by the use of member reverse repurchase agreements).

Our Comment: Excessive leverage and a lack of true capital were aggravating factors in the current corporate credit union losses to the NCUSIF. Relying on wholesale sources to fund short-term needs is reasonable. However, an elevated level of borrowing for a long period of time raises concern as it may demonstrate a deeper problem which would only be exasperated by a liquidity crisis.

Our Recommendation: Allow corporate credit unions to maintain reserve access to liquidity through funding commitments over those provided for in the proposed 704.9(b) recommendation, but restrict actual borrowings to the parameters suggested in the proposed rule. Define the conditions and regulatory framework that would permit corporate credit unions to access reserve lines in a liquidity crisis.

Section 704.3(d) Individual Minimum Capital Requirements

(2) Appropriate considerations for establishing individual minimum capital requirements.

Our Comment: We believe the proposed change is arbitrary and should be better defined. Allowing wide latitude in the establishment of capital levels leaves open the potential that risk will be underestimated and allow a corporate credit union the ability to operate with too little equity cushion. While we do support NCUA being given the latitude to tailor capital requirements to individual levels of risk, we believe that a minimum capital level should clearly be established.

Our Recommendation: Requiring proper levels of capital will help to protect the NCUSIF. We realize that the proposed capital and earnings goals present some challenge without the adaptation of the business model of corporate credit unions. However, we believe that strong capital rules, in the long-term, will help create a stronger and more valuable corporate system by encouraging the efficient use of capital and better management of risk.

Sincerely,

Paul Kundert
President and CEO